

Audited Basic Financial Statements

Orion Township Public Library

**Year Ended December 31, 2005
With Report of Independent Auditors**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name ORION TOWNSHIP PUBLIC LIBRARY	County OAKLAND
Fiscal Year End 12/31/05	Opinion Date MARCH 23, 2006	Date Audit Report Submitted to State MAY 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

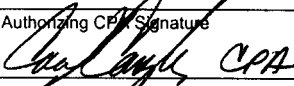
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ANDREWS HOOPER & PAVLIK, PLC		Telephone Number 248-340-6050	
Street Address 3201 UNIVERSITY DRIVE, SUITE 350		City AUBURN HILLS	State MI
Authorizing CPA Signature  CPA		Printed Name COLLEEN P. CAVANAUGH, CPA	Zip 48326
		License Number 1101028252	

Orion Township Public Library
Audited Basic Financial Statements
Year Ended December 31, 2005

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

The Board of Trustees
Orion Township Public Library
Lake Orion, Michigan 48362

We have audited the basic financial statements of the Orion Township Public Library (the Library) as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Orion Township Public Library as of December 31, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Orion Township Public Library. The information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
March 23, 2006

Orion Township Public Library

Governmental Fund Balance Sheet / Statement of Net Assets

December 31, 2005

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 1,609,018	\$ -	\$ 1,609,018
Accounts receivable	12,326	-	12,326
Prepaid expenses and deposits	92,002	-	92,002
Investments - current	299,909	-	299,909
Investments - noncurrent	1,016,038	-	1,016,038
Capital assets, net of accumulated depreciation of \$3,385,140	-	2,184,977	2,184,977
Total assets	<u>\$ 3,029,293</u>	<u>2,184,977</u>	<u>5,214,270</u>
Liabilities:			
Trade accounts payable	\$ 42,545	-	42,545
Accrued wages	64,920	-	64,920
Total liabilities	<u>107,465</u>	<u>-</u>	<u>107,465</u>
Fund Balances and Net Assets:			
Fund Balance - unrestricted and undesignated	982,934	(982,934)	-
Fund Balance - designated for post retirement medical benefits	338,894	(338,894)	-
Fund Balance - designated for future building needs	1,600,000	(1,600,000)	-
Total fund balances	<u>2,921,828</u>	<u>(2,921,828)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 3,029,293</u>		
Net Assets:			
Invested in capital assets, net of related debt		2,184,977	2,184,977
Unrestricted		2,921,828	2,921,828
Total net assets		<u>\$ 5,106,805</u>	<u>\$ 5,106,805</u>

See accompanying notes to the basic financial statements.

Orion Township Public Library

Statement of General Fund Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities

Year ended December 31, 2005

	General Fund Modified Accrual Basis General	Adjustments	Statement of Activities
Revenues:			
Property tax	\$ 2,363,630	\$ -	\$ 2,363,630
State aid	29,101	-	29,101
Sales tax	2,441	-	2,441
Penal fines	44,722	-	44,722
Copier service	9,690	-	9,690
Library fines	39,353	-	39,353
Interest income	93,236	-	93,236
Dividend income	13,815	-	13,815
Donations revenue	10,323	-	10,323
Miscellaneous income	3,076	-	3,076
Video income	12,512	-	12,512
Lost or damaged income	2,731	-	2,731
Grant income	20,825	-	20,825
Digitization income	2,250	-	2,250
Meeting room income	570	-	570
Sale of capital assets	1,565	-	1,565
Realized and unrealized loss on investments	(5,443)	-	(5,443)
Total revenues	<u>2,644,397</u>	<u>-</u>	<u>2,644,397</u>
Expenditures:			
Copier supplies	2,033	-	2,033
Donations	6,206	-	6,206
Salaries	1,133,689	-	1,133,689
Payroll, employee benefit taxes and employer pension contribution	370,538	-	370,538
Grant expense	29,914	-	29,914
Supplies	53,844	-	53,844
Automation	142,990	-	142,990
Library books and materials	245,270	(245,270)	-
Promotion, publishing and printing	58,439	-	58,439
Telephone	11,624	-	11,624
Utilities	62,004	-	62,004
Repairs and maintenance	39,539	-	39,539
Insurance and workers' compensation	40,179	-	40,179
Transportation	7,268	-	7,268
Education, training and dues	19,700	-	19,700
Professional and contractual services	77,694	-	77,694
Miscellaneous	3,211	-	3,211
Capital improvements	125,558	(114,567)	10,991
Depreciation	-	433,511	433,511
Total expenditures	<u>2,429,700</u>	<u>73,674</u>	<u>2,503,374</u>
Excess (deficiency) of revenues over expenditures and change in net assets	214,697	(73,674)	141,023
Fund balance/net assets - beginning of year	<u>2,707,131</u>	<u>2,258,651</u>	<u>4,965,782</u>
Fund balance/net assets - end of year	<u>\$ 2,921,828</u>	<u>\$ 2,184,977</u>	<u>\$ 5,106,805</u>

See accompanying notes to the basic financial statements.

Orion Township Public Library

Notes to the Basic Financial Statements

December 31, 2005

1. Summary of Significant Accounting Policies

Introduction

The accounting policies of Orion Township Public Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

Financial Reporting Entity

In April 1929, the Library was established under P.A. 164 of 1877 as a separate tax entity with a voted millage and elected board. On January 1, 1985, the Library became a separate financial operating entity from Orion Township. The Library provides various services to the residents of Orion Township.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity*.

Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental funds are accounted for using the flow or current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting.

The Library reports the following major governmental fund:

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

Investments

Investments are carried at market value based on quoted market prices and consist of certificates of deposit, treasury notes and equity securities.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs. Management closely monitors outstanding balances and writes off receivables when the receivable is deemed uncollectible. Management believes any realization losses on the outstanding balance at December 31, 2005 would be immaterial, accordingly, no allowance is utilized.

Prepaid Expenses and Deposits

Certain payments to vendors reflect costs applicable to the future fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$3,500 and an estimated useful life in excess of two years. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	15 – 31.5 years
Building and improvements	31.5 years
Equipment, furniture and fixtures	5 – 10 years
Library books and materials	5 – 7 years

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

It is the Library's policy to permit employees to accumulate a limited amount of earned but unused vacation, which will be paid to the employees upon separation from the Library. Employees are paid their accumulated vacation pay upon termination of employment for any reason. Accruals for these liabilities are recorded as earned by employees and reported in the government-wide financial statements.

Fund Equity

In the fund financial statements, the unreserved fund balances represent the amount available for budgeting future operations. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period.

Income Taxes

The Library is a Governmental sub-unit organization and as such is not subject to federal income tax.

Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the basic financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Cash and Cash Equivalent Deposits – Custodial Credit Risk

Cash deposits and investments (certificates of deposit with maturities less than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at various banks and investment companies.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

2. Cash and Cash Equivalent Deposits – Custodial Credit Risk (continued)

At December 31, 2005, the Library had three depository accounts. The Library does not have a deposit policy. The book value of the Library's bank deposits, consisting of three interest bearing checking accounts were \$265,185. Of the bank balance, \$100,000 was covered by Federal depository insurance and \$183,011 was uninsured and uncollateralized; therefore, subjecting the Library to custodial credit risk. Custodial risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. However, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 100,000
Uninsured and uncollateralized	<u>183,011</u>
Total	<u>\$ 283,011</u>

3. Investments

At December 31, 2005, the Library had the following investments and maturities:

	Fair Market Value	Investment Maturities (in years)			
		Less than 1	1 –5	6 - 10	More than 10
Deposits:					
Certificates of Deposit	\$ 1,378,038	\$ 500,000	\$ 878,038		
Money Market	842,094	842,094	-	-	-
Investments:					
US Government Securities	138,000	-	138,000	-	-
Mutual Funds	299,909	299,909	-	-	-
Total investments	<u>\$ 2,658,041</u>	<u>\$ 1,642,003</u>	<u>\$ 1,016,038</u>	<u>\$ -</u>	<u>\$ -</u>
Less investments reported as "Cash and Cash Equivalents" on the Statement of Net Assets	<u>1,342,094</u>				
Total investments	<u>\$ 1,315,947</u>				
As reported on Statement of Net Assets					
Current investments	\$ 299,909				
Noncurrent investments	<u>1,016,038</u>				
Total investments	<u>\$ 1,315,947</u>				

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not specifically address interest rate risk. The Library's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for custodial credit risk. The Library also has the following investment policies further limiting its investment choices:

- Bonds, securities, and other obligations of the United States of an agency or instrumentality of the United States. Total portfolio investment shall not exceed 25%.
- Commercial paper rated at the time of purchase at the highest classification established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase. Total portfolio investment shall not exceed 25%.
- Mutual Funds as described by section 1, ACT 20 PA 1943 as amended. The authorization includes securities whose intention is to maintain a net asset value of \$1.00 per share or securities whose net asset value per share may fluctuate on a periodic basis. Total portfolio investment not to exceed 15%.

As of December 31, 2005, the credit quality rating of the fixed income mutual funds with a fair value of \$299,909 were Aa. U. S. Governmental securities were rated AAA by Standard and Poors. The short-term money market accounts were rated F1 and F1+ by Fitch, P-1 by Moody's and between A-1 and A-2 by Standard and Poors. Certificates of deposit are not rated however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds and U. S. Governmental securities are not exposed to custodial risk. The Library's certificates of deposit are not rated however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices, with the exception of U.S. Treasury securities and authorized investment pools to each; no more than 30% of the total investment portfolio is invested with a single financial institution. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 12/31/04	Additions	Disposals	Balance 12/31/05
Assets not being depreciated:				
Land	\$ 46,036	\$ -	\$ -	\$ 46,036
Other capital assets:				
Land improvements	40,297	-	-	40,297
Building and improvements	3,019,031	-	-	3,019,031
Equipment, furniture and fixtures	1,043,139	114,567	-	1,157,706
Library books and materials	1,305,499	245,270	(243,722)	1,307,047
Total	5,454,002	359,837	(243,722)	5,570,117
Accumulated depreciation	(3,195,351)	(433,511)	243,722	(3,385,140)
Net book value	\$2,258,651	\$ (73,674)	\$ -	\$ 2,184,977

5. Retirement Programs

Group Pension Plan

The Library sponsors a defined contribution Group Pension Plan (the Plan) administered by the Library. The Plan may be amended from time to time by written amendment executed by the insurer of the Plan. The Plan covers full-time employees who are at least 18 years of age and have six months of service with the Library. The Library's required contributions are in varying amounts from 8% to 10% of compensation per participant depending on length of service. Participants may also make voluntary contributions of up to 10% of their monthly compensation. Library contributions to the plan amounted to \$67,864 in 2005.

Deferred Compensation Plan

The Library also has a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan is available to all employees and it permits each employee to defer a portion of their salary until future years. The Library does not contribute or match any employee's contributions to this plan.

Notes to the Basic Financial Statements (continued)

6. Post-Retirement Medical Benefits Plan

The Library has implemented a medical benefits program for the benefit of its retirees and their dependents. The plan incorporates the terms of the medical benefits program as included in the health insurance contracts. Benefits will be provided through traditional indemnity insurance, a health maintenance organization or a preferred provider organization. In order to be eligible for the retiree health insurance benefits, all of the following must be met:

- At least 10 years of full-time continuous employment at the Library prior to retirement.
- Receipt of a retirement benefit from the Orion Township Public Group Pension Plan.
- Participation in the Library's health insurance program at the time of retirement.

The Library and retiree each pay 50% of the cost up to age 65 or qualifying for Medicare. The Library will pay an additional 2% of the cost for each year of full-time continuous employment in excess of 20 years up to a maximum 20% reduction. The plan will be funded on a pay-as-you-go basis. The Board has designated \$338,894 of the fund balance for the provision of the post-retirement medical benefit plan. The Library reserves the right to amend, modify or terminate this retiree health care policy at any time. During 2005 the amount of benefit expenditures recognized was \$1,719. At December 31, 2005 there were no retirees eligible to receive benefits.

The Board of Trustees of the Library voted in December 2005 to establish a trust fund for the Post-Retirement Medical Benefits Plan. The trust will be created in 2006, at which time the board designated amount of \$338,894 will be transferred to the trust.

7. Property Taxes

The portion of property taxes allocated to the Library from Orion Township is recorded as revenue in these basic financial statements in the subsequent year in which they are levied. Accordingly, the Library has included in revenue for the year ended December 31, 2005, property taxes levied during December of 2004.

The portion of property taxes to be allocated to the Library from Orion Township for 2006, which were levied in December of 2005, are approximately \$2,363,630.

8. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year end. The General Fund's appropriated budget is prepared on a detailed line-item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

Notes to the Basic Financial Statements (continued)

8. Stewardship, Compliance and Accountability (continued)

The Library follows these procedures in establishing the budgetary data reflected in the supplemental information:

1. Prior to the August Board meeting, the Library Director submits to the Finance Committee, a proposed operating budget for the fiscal year commencing the following January 1. In August, the Finance Committee submits the proposed operating budget to the Library Board. The budget is legally adopted by a Library Board Resolution by September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Library's annual board meeting to obtain taxpayer comments.
3. Prior to January 1, the budget is legally adopted by a Library Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Act are disclosed as unfavorable variances on the budgetary comparison schedule (accounting principles generally accepted in the United States of America) - General Fund and Debt Service Fund.
4. The Director is authorized to transfer budgeted amounts between line-items within an activity. However, the Library Board must approve any revisions that alter the total expenditures for any activity.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31.

Excess Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line-item basis.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

8. Stewardship, Compliance and Accountability (continued)

During the year ended December 31, 2005, the Library incurred expenditures in excess of the amounts appropriated as follows:

Budget Item	Budget Appropriation	Actual Expenditures	Variance
General Fund			
Fringe benefits	\$ 368,700	\$ 370,538	\$ 1,838
Mileage and transportation	6,800	7,268	468
Miscellaneous/use taxes	3,000	3,211	211
Grant expense	27,000	29,914	2,914
Capital improvements	122,000	125,558	3,558

9. Designated and Undesignated Donations

The Library receives donations from the general public that are both designated and undesignated. The undesignated donations are recorded as General Fund revenue as received and expended by the Library as needed. Designated donations are recorded as General Fund revenue as received and spent in a manner consistent with the donors' restrictions. Due to timing differences, it is not always possible to spend these designated donations in the same year they were received. However, as of December 31, 2005, the Library had no unspent designations.

10. Risk Management

The Library is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Library carries commercial insurance for risks to cover these losses. The Library also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

Orion Township Public Library

Notes to the Basic Financial Statements (continued)

11. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 2,921,828
Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the funds	<u>2,184,977</u>
Net Assets – Full Accrual Basis	<u>\$ 5,106,805</u>
 Net Change in Fund Balance – Modified Accrual Basis	 \$ 214,697
Capital outlays are reported as expenditures in the statement of revenue, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Capital outlay	359,837
Depreciation	<u>(433,511)</u>
Net Change in Net Assets – Full Accrual Basis	<u>\$ 141,023</u>

Required Supplemental Information

Orion Township Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2005

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property tax	\$ 2,354,000	\$ 2,355,000	\$ 2,363,630	\$ 8,630
State aid	29,000	29,000	29,101	101
Sales tax	2,000	2,000	2,441	441
Penal fines	43,000	44,700	44,722	22
Copier service	4,000	8,000	9,690	1,690
Library fines	27,000	34,000	39,353	5,353
Interest income	40,000	60,000	93,236	33,236
Dividend income	-	-	13,815	13,815
Donations income	10,000	18,000	10,323	(7,677)
Miscellaneous income	18,000	10,500	3,076	(7,424)
Video income	-	-	12,512	12,512
Lost or damaged income	-	-	2,731	2,731
Grant income	-	-	20,825	20,825
Digitization income	-	-	2,250	2,250
Meeting room income	-	-	570	570
Sale of capital assets	-	-	1,565	1,565
Realized and unrealized loss on investments	-	-	(5,443)	(5,443)
Total revenues	2,527,000	2,561,200	2,644,397	83,197
Expenditures:				
Salaries	1,157,000	1,150,000	1,133,689	16,311
Fringe benefits	358,000	368,700	370,538	(1,838)
Supplies	64,000	64,000	55,877	8,123
Promotion and printing	66,000	69,000	58,439	10,561
Automation and technology	153,000	143,000	142,990	10
Materials and programs	265,000	266,200	245,270	20,930
Telephone	17,500	16,500	11,624	4,876
Utilities	65,500	65,500	62,004	3,496
Repairs and maintenance	48,000	48,000	39,539	8,461
Insurance and workers' compensation	40,500	44,500	40,179	4,321
Mileage and transportation	6,000	6,800	7,268	(468)
Education, training and dues	31,000	22,000	19,700	2,300
Professional contract services	60,500	87,000	77,694	9,306
Miscellaneous use taxes	2,500	3,000	3,211	(211)
Contingency fund	11,400	-	-	-
Donation expense	8,000	8,000	6,206	1,794
Grant expense	27,000	27,000	29,914	(2,914)
Retirement health benefit fund contribution	30,000	50,000	-	50,000
Depreciation	50,000	-	-	-
Capital improvements	12,500	122,000	125,558	(3,558)
Building fund contributions	55,000	-	-	-
Set aside for utilities tax appeal	20,000	-	-	-
Total expenditures	2,548,400	2,561,200	2,429,700	131,500
Excess (deficiency) of revenues over expenditures	(21,400)	-	214,697	214,697
Fund balance - beginning of year	2,707,131	2,707,131	2,707,131	-
Fund balance - end of year	\$ 2,685,731	\$ 2,707,131	\$ 2,921,828	\$ 214,697

See accompanying basic financial statements and notes.

ORION TOWNSHIP PUBLIC LIBRARY
REPORT TO THE BOARD OF TRUSTEES

March 23, 2006

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

The Board of Trustees
Orion Township Public Library
825 Joslyn Road
Lake Orion, Michigan 48362

In planning and performing our audit of the financial statements of the Orion Township Public Library for the year ended December 31, 2005, we considered the Library's internal control to plan our auditing procedures for the purpose of expressing our opinion in the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated March 23, 2006, on the financial statements of the Orion Township Public Library. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

GENERAL ACCOUNTING

Investment Gain or Loss

During our fieldwork we noted that the Library does not record realized and unrealized gains or losses on investments.

We recommend that the Library record the realized and unrealized gains or losses on investments when applicable.

Revenue Recognition in the Correct Period

During our fieldwork we noted discounts for bonds held for investment were not being amortized over the remaining life of the bonds but were recognized at maturity of the bond.

We recommend any bond discounts or premiums be amortized over the remaining life of the bond to provide correct matching revenue and expense recognition by period.

Monthly Bank Reconciliations

During our fieldwork we noted that monthly bank reconciliations are not reviewed by an independent employee.

We recommend that all monthly bank reconciliations be reviewed by an independent employee prior to presentation at the board.

Backup Tapes

During our fieldwork we noted that the backup tapes containing the Library's financial data are placed in an unlocked mail box located in the workroom prior to being picked up to be taken to the Senior Center.

Due to the sensitivity of the information, we recommend that the Library place the tape in a secured area prior to being picked up to be taken to the Senior Center.

The above comments represent our observations during the course of the audit and are intended to be constructive suggestions for improvements. We would be pleased to discuss these comments with you at greater length and to assist you with any other needs, should you so desire.

Sincerely,

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
March 23, 2006